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Northwest Requirements Utilities

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September 7, 2005

Steven Wright, Administrator
Bonneville Power Administration
P.O. Box 3621
Portland, Oregon 97208-3621

Re: NRU Comments; Grid West/TIG Decision

Dear Administrator:

This letter responds to BPA's August 4, 2005 request for comments on the agency's decision of whether to pursue further development of Grid West, or alternatively, the Transmission Improvements Group (TIG) approach. We appreciate the opportunity to give you Northwest Requirements Utilities' (NRU) views. Individual NRU members have differing views on aspects of this question, and they may submit comments separately.

NRU staff has participated in regional discussions about transmission issues since 1997. NRU utilities are full or partial requirements customers of BPA and predominantly take Network Integration (NT) transmission service from BPA, although a very small number of NRU utilities take Point to Point (PTP) service from BPA. The transmission problems experienced by NRU utilities tend to be those associated with GTA service, sometimes poor quality service on low voltage facilities, and the prospect of paying pancaked transmission rates when non-federal purchases are moved over multiple systems. These problems will be exacerbated as we move to a future where NRU's members will be responsible for providing for their own load growth, especially over GTAs.

NRU utilities have not yet directly experienced service difficulties associated with increased congestion and unfulfilled transmission service requests on BPA's main grid. NRU is therefore not in the position of judging directly whether these problems are so significant as to require changes to the way the region manages, operates or expands the transmission grid. That said, we have been convinced by BPA that grid operations require a new approach. BPA's recent efforts to calculate available transmission capacity on its system, to develop and undertake constrained schedule management, to address long service request queues, and to undertake major transmission expansion projects are evidence enough that transmission management needs attention.

In particular, NRU is concerned that the current approach ultimately will not provide the transmission service NRU utilities will need over the long term, for three reasons. First, the existing approach does not use the existing system efficiently. The practical consequence of this is that the region may be investing capital in expansions

when expansion may not be needed, or could be delayed, or could be undertaken more productively elsewhere. Second, BPA has become the de facto “transmission construction entity of last resort” for the region. This situation tends to put most of the costs of transmission construction on BPA’s customers and will soon exhaust BPA’s existing borrowing authority. Third, and perhaps most important, as regional loads grow and eventually exceed the output of the Federal Columbia River Power System, NRU utilities will need new resources delivered to load. As the transmission system exists today, it is not clear how this will happen. If the resource is from a non-federal supplier, then utilities face the prospect of paying multiple transmission rates, which will either raise the cost of delivered power to NRU’s members or limit those communities’ power supply choices.

Because these issues are serious, and because serious issues require long lead times for solutions, the time has come for the region to prepare for the future by undertaking needed improvements to transmission services. Therefore, we wholeheartedly concur that the option of “Transmission owners continue separate operations” should be rejected. This region simply does not have the luxury to take another decade to determine a course of action that will produce the desired “one utility” approach to transmission. Absent an overall solution, transmission dependent utilities, such as NRU’s membership will increasingly face risks of decreased reliability, increased transmission costs, growing inefficiencies, and lack of timely construction of needed infrastructure.

An NRU Overview of Grid West and TIG

The NRU voting procedures requires a three-quarters affirmative vote on major policy issues for the organization to take a public position that is represented as a consensus. Of the two viable options on the table, Grid West or TIG, neither in isolation has achieved the three-quarter threshold of support from the membership at this time. However, there does seem to be a strong interest in taking a period of time, say 90 days, to try to integrate the best features of both TIG and Grid West into a consolidated approach/proposal that could be accepted throughout the region. Such an approach would achieve a consensus position of Northwest Requirements Utilities. A few additional comments about TIG and Grid West may help to lay the background for this recommendation.

Grid West

A number of NRU members have a modest preference for the Grid West approach, with the exceptions and concerns noted and discussed below. Grid West was developed with substantial NRU input, and other than as described in the following paragraph regarding GTAs and non-federal power, appears to address NRU’s concerns, or “must haves.” NRU’s “must haves” include achieving an effective contract lock, preserving existing transmission rights, preserving regional flexibility, avoiding unnecessary cost shifts, eliminating rate pancaking, combining transmission planning and expansion, and providing net benefits to the region. The Grid West proposal, while not

finalized, at this point addresses these concerns with enough specificity that these NRU members would support continued development of the Grid West proposal (although we reserve final judgment for the final proposal). Our review of the Grid West costs and benefits indicates that the benefits of Grid West exceed the cost even using conservative assumptions. Finally, a one-utility approach to planning and provision of transmission services appears to be the best overall way of achieving the service and reliability improvements BPA's comment letter mentioned.

On the negative side, there are strong concerns about some aspects of Grid West, particularly regarding governance and control over the scope of its activities, and whether Grid West is moving forward too fast. These concerns, as well as the concern over the impact of having a FERC-jurisdictional entity created, were expressed broadly within the NRU membership. Although BPA is committed to working with us to address transmission pancaking for GTA served customers wanting to purchase non federal power resources, that issue has not yet been successfully resolved at this stage of the Grid West development. Finally, NRU will need to see a demonstration, before Grid West goes operational, that the proposal provides net benefits to BPA's customers, not just to the region.

TIG

Regarding TIG, NRU participated in TIG development only at a high level, to the extent staff resources were available to do so. NRU respects TIG's effort to develop an alternative approach to Grid West. Heroic progress has been made in a limited period of time, and many NRU members support continuing the TIG process as a preferred option to Grid West. They believe it will be less expensive than Grid West while creating an ongoing opportunity for continued improvements to transmission service. There appear to be a number of options under discussion for securing regional benefits from TIG by selectively implementing activities that will yield the greatest net benefits with modest investments compared to Grid West. Most important, TIG avoids forming a FERC jurisdictional entity, and does not rely on an independent board, which is a concern for many in public power.

NRU staff continues to have the following concerns about TIG. The first is that TIG does not have broad participation of large regional transmission owners other than BPA. Many NRU utilities are physically located behind the transmission systems of PacifiCorp and Idaho Power Company. Therefore it is not clear how the TIG approach would address the concerns of those NRU utilities, or how the absence of those utilities from the TIG structure would affect NRU utilities east of Oregon and Washington. It is also not clear how TIG would deal with the concerns of customers served over GTAs, especially for the transfer of non-federal power. There is a second, related, concern here. The lack of broad participation raises questions about the efficacy of TIG's solutions: if not all transmission providers or control areas volunteer to participate in the TIG contract-based approach, do the solutions produce the same level of benefits? However, it is difficult to fairly compare Grid West and TIG due to the fact that TIG has not completed its cost benefit study. Last, as a practical matter, the region has been

attempting to solve transmission problems by agreement for over a decade. The TIG approach relies on several multi-lateral contracts among volunteers to achieve progress. In our experience, nothing has changed that would indicate that volunteer approaches are practical and likely to succeed now when they have not been so for ten or fifteen years.

Suggestions for Improvement

1. For purposes of getting started, BPA should support a plan that initially addresses the five main areas developed by the TIG Charter Group. These include regional transmission planning and expansion, a Common Northwest OASIS, a flow-based approach, reliability and security, and market monitoring. This is not a recommendation for a specific organizational approach, Grid West or TIG, but rather an identification of the tasks that are most important to the region and BPA customers in the short term.
2. The concerns of members about a Grid West Board operating in isolation from the interests and needs of the region could be addressed by changing some of the qualifications requirements for Board membership to include a requirement that the Board members should have an established residence in the geographic area of Grid West footprint, and have direct current or former knowledge of and experience with the region's power and transmission systems.
3. Ensuring that the membership of the organization retains control over the scope of Grid West's activities is an important consideration to many in public power. If BPA continues to examine Grid West, then NRU would recommend a further governance change. Currently, if fewer than 16 members of the Membership Representatives Committee support a proposed action by the Board of Trustees regarding the five "special issues," then the Board must agree on the proposal by a supermajority Board vote (seven of nine of the Board members must approve the action). NRU recommends that the five "special issues" and other activities deemed by the membership to be a change in scope (pursuant to section 7.17 of the Operational Bylaws) should be subject to a high threshold of member approval before the Board can act on the matter. Specifically, regarding activities on the "special issues" list and activities deemed a change in scope by members pursuant to section 7.17, the Board cannot move forward without a two-thirds vote in favor of the action. In effect, failure to achieve a two-thirds majority of MRC support means that the Board could not move forward on that activity..

NRU Recommendation

On balance the NRU membership is divided on which option to pursue in part because insufficient information is available to answer key questions such as likely transmission owner participation in TIG, likely cost and benefit levels of TIG, treatment of GTA service for non-federal power under TIG and Grid West, and possible flexibility in governance models. We would urge BPA to take up to 60 - 90 days before making a

decision. This should provide sufficient time for the region to review the key supporting data for the TIG proposal, such as the benefit cost study. This would also provide time for all parties to try to further consolidate these proposals, and to then press for answers to these questions as well as others. We would question the wisdom of forcing a choice between two options at this time if in fact there is a real possibility of consolidating them by selecting the best features of each proposal. NRU is not recommending developing both proposals in parallel over a prolonged period of time. Alternatively, we want a brief period to consider consolidation of the two approaches. This option presents the greatest opportunity to develop a regional consensus around a plan that has a high likelihood of being successful, particularly if BPA, the other transmission owners, and customers can develop it collaboratively.

In closing, this particular BPA decision has great significance for the region's future. To a very great extent, BPA's customers do not have the same level or quality of information or experience that BPA has and therefore cannot make this decision for the agency. In addition to considering customer input, NRU urges that you base your decision on the agency's best operating, legal, and business judgment, with due regard to a positive future for all your customers. NRU will do what it can to make your decision work, regardless of the path you choose, either TIG or Grid West, or a consolidation of the two proposals.

I appreciate the opportunity to represent NRU's views to BPA.

Kindest personal regards,

A handwritten signature in black ink, appearing to read "John D. Saven". The signature is fluid and cursive, with a long horizontal stroke extending to the left.

John D. Saven, CEO

CC: Members of Northwest Requirements Utilities
Marilyn Showalter, Public Power Council